

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	STURGIS TOWNSHIP	County	ST. JOSEPH	Type	TOWNSHIP	MuniCode	
Opinion Date-Use Calendar	Jul 24, 2008	Audit Submitted-Use Calendar	Aug 13, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 228,045.00
General Fund Expenditure:	\$ 266,403.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 432,568.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations)

CPA (First Name)	MICHAEL	Last Name	WILSON	Ten Digit License Number	1101017570		
CPA Street Address	127 W. CHICAGO RD.	City	STURGIS	State MI	Zip Code 49091	Telephone	+1 (269) 651-3228
CPA Firm Name	NORMAN & PAULSEN, P.C.	Unit's Street Address	26015 W US-12	City	Sturgis	LU Zip	49091

TOWNSHIP OF STURGIS
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

March 31, 2008

TOWNSHIP OF STURGIS, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Sturgis, Michigan

Norman & Paulsen, P.C.

Certified Public Accountants

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Sturgis, MI 49091

269.651.3228

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patrick@accounting.com

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Sturgis, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Sturgis management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Sturgis, Michigan, as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael F. Wilson, CPA

Rick L. Strawser, CPA

John T. Norman (1941-1982)

July 24, 2008

Norman & Paulsen, P.C.

TOWNSHIP OF STURGIS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Sturgis financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Township's financial statements.

Financial Highlights

The Township's overall financial position increased by \$55,699 during the fiscal year ended March 31, 2008, which represents 8.8 percent of the net asset position at the beginning of the year.

The Township's Governmental Funds reflected a total fund balance at March 31, 2008 of \$432,568, which was a decrease of \$38,358 from the prior year end. Included in this decrease was \$98,212 in capital outlay expenditures for the renovation of the new Township Hall.

The total Governmental Fund expenditures for the year ended March 31, 2008, amounted to \$266,403, of which \$116,646 (44 percent) was for general government; \$43,401 (16 percent) was for public safety; \$8,144 (3 percent) was for public works; and \$98,212 (37 percent) was for capital outlay.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

TOWNSHIP OF STURGIS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds	
	2008	2007
Assets	\$ 436	\$ 473
Liabilities	3	2
Fund Balances		
Designated	170	170
Unreserved	<u>263</u>	<u>301</u>
Total Fund Equity	<u>\$ 433</u>	<u>\$ 471</u>

The following table shows, in a condensed format, the net assets of the current year end and compared to the prior year end as required by GASB 34 stated under the full accrual basis.

	Governmental Activities	
	2008	2007
Current and other assets	\$ 436	\$ 473
Capital assets	<u>253</u>	<u>159</u>
Total assets	689	632
Long-term debt outstanding	-	-
Other liabilities	<u>3</u>	<u>2</u>
Total liabilities	3	2
Net assets		
Invested in capital assets, net of related debt	253	159
Restricted	-	-
Unrestricted	<u>433</u>	<u>471</u>
Total net assets	<u>\$ 686</u>	<u>\$ 630</u>

TOWNSHIP OF STURGIS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds	
	2008	2007
Revenue		
Taxes and fees	\$ 15	\$ 20
Licenses and permits	3	5
State shared revenue	167	166
Interest	37	23
Other	<u>6</u>	<u>51</u>
Total revenue	228	265
Expenditures		
General government	117	121
Public safety	43	32
Public works	8	12
Capital outlay	<u>98</u>	<u>159</u>
Total expenditures	<u>266</u>	<u>324</u>
Excess (deficiency)	<u>\$ (38)</u>	<u>\$ (59)</u>

TOWNSHIP OF STURGIS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current date as compared to the prior year, as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities	
	2008	2007
Revenues		
Program revenues		
Charges for services	\$ 7	\$ 8
Operating grants and contributions	2	2
Capital grants and contributions	-	-
General revenues		
Property taxes	14	20
State shared revenues	164	166
Unrestricted investment earnings	37	23
Miscellaneous	<u>4</u>	<u>18</u>
Total revenues	228	237
Expenses		
General government	121	121
Public safety	43	32
Public works	<u>8</u>	<u>12</u>
Total expenses	<u>172</u>	<u>165</u>
Change in net assets	<u>\$ 56</u>	<u>\$ 72</u>

The Township's Funds

Our analysis of the Township's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. Major funds for the fiscal year ended March 31, 2008 include the General Fund.

The General fund pays for most of the Township's governmental services. The primary services include community planning and zoning services, fire protection services, road maintenance and administrative services related to general operations that support the primary services. The General Fund is funded primarily by state shared revenues.

TOWNSHIP OF STURGIS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the Township budgeted a decrease of \$204,912 in the original budget and a decrease of \$204,912 in the amended budget. Actual operating results ended up as a decrease of \$38,358.

Capital Assets and Debt Administration

During the year ended March 31, 2008, the total capital assets of the Township increased by \$93,137 for Township Hall renovations and \$5,075 for office equipment.

The Township has no debt obligations.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Treasurer's office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWNSHIP OF STURGIS, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2008

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 389,432
Receivables - net	<u>46,165</u>
Total current assets	435,597
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	<u>253,479</u>
Total assets	689,076
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>3,029</u>
NET ASSETS	
Invested in capital assets	253,479
Unrestricted	<u>432,568</u>
Total net assets	<u>\$ 686,047</u>

See accompanying notes to financial statements

TOWNSHIP OF STURGIS, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

	<u>Program Revenues</u>			Net (Expense) Revenues and Changes in Net Assets
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 120,801	\$ 2,615	\$ -	\$ (118,186)
Public safety	43,401	4,395	-	(39,006)
Public works	<u>8,144</u>	<u>-</u>	<u>2,350</u>	<u>(5,794)</u>
Total governmental activities	<u>\$ 172,346</u>	<u>\$ 7,010</u>	<u>\$ 2,350</u>	(162,986)
General revenues:				
Property taxes				13,831
State shared revenues				164,306
Investment earnings				36,812
Other				<u>3,736</u>
Total general revenues				<u>218,685</u>
CHANGE IN NET ASSETS				55,699
NET ASSETS - BEGINNING				<u>630,348</u>
NET ASSETS - ENDING				<u>\$ 686,047</u>

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

TOWNSHIP OF STURGIS, MICHIGAN

GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2008

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 389,432
Accounts receivable	6,611
Due from other governmental units	<u>39,554</u>
Total assets	<u><u>\$ 435,597</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 3,029
 FUND BALANCE	
Designated for:	
Capital projects	100,000
Fire protection	70,000
Unreserved, undesignated	<u>262,568</u>
Total fund balances	<u>432,568</u>
Total liabilities and fund balance	<u><u>\$ 435,597</u></u>

See accompanying notes to the financial statements

TOWNSHIP OF STURGIS, MICHIGAN

GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2008

Total governmental fund balances \$ 432,568

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

Governmental capital assets	\$ 257,634	
Less accumulated depreciation	<u>(4,155)</u>	<u>253,479</u>

Net assets of governmental activities \$ 686,047

See accompanying notes to financial statements

TOWNSHIP OF STURGIS, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2008

	General Fund
REVENUES	
Taxes and fees	\$ 15,170
Licenses and permits	3,056
State shared revenue	166,656
Interest	36,812
Other	<u>6,351</u>
Total revenues	228,045
EXPENDITURES	
General government	116,646
Public safety	43,401
Public works	8,144
Capital outlay	<u>98,212</u>
Total expenditures	<u>266,403</u>
Excess (deficiency) of revenues over expenditures	(38,358)
FUND BALANCE - Beginning of year	<u>470,926</u>
FUND BALANCE - End of year	<u><u>\$ 432,568</u></u>

See accompanying notes to financial statements

TOWNSHIP OF STURGIS, MICHIGAN

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

Net change in fund balances - total governmental funds \$ (38,358)

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	98,212
Depreciation expense	<u>(4,155)</u>

Change in net assets of governmental activities \$ 55,699

See accompanying notes to financial statements

TOWNSHIP OF STURGIS, MICHIGAN

FIDUCIARY FUNDS
BALANCE SHEET
MARCH 31, 2008

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 5,708</u>
LIABILITIES	
Undistributed funds	<u>\$ 5,708</u>

See accompanying notes to financial statements

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Sturgis conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to townships. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies establishing GAAP and used by the Township are discussed below.

Reporting Entity

Sturgis Township is located in St. Joseph County, Michigan, and provides services to approximately 2,400 residents in many areas including public safety, highways and streets, general administrative services, fire protection, and community enrichment and development. The Township is a general law township, and is governed by a 5-member board elected by the citizens of Sturgis Township. The board consists of the supervisor, clerk, treasurer, and two trustees whom reside in the community.

As required by generally accepted accounting principles, GASB 14, these financial statements present the Township (the primary government) and its component units, entities for which the Township is considered to be financially accountable. There are no component units to be included in these financial statements.

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Township as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Township and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Township.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

TOWNSHIP OF STURGIS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Township reports the following major funds:

General Fund - The general fund is the general operating fund of the Township. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from state shared revenues and charges for services.

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if it is collected within 60 days of the end of the current fiscal period. Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

TOWNSHIP OF STURGIS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the Township:

General Fund - The general fund is the general operating fund of the Township. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from state shared revenues and charges for services.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

The following is a description of the proprietary fund types of the Township:

Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Township programs.

Agency Funds - Agency funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general fund. The Township adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about March 31, the Township Board submits to the general public a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Township Board is authorized to transfer budgeted amounts within departments.
- * The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Board of Trustees.

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government of federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Roads	40
Land improvements	15-30
Buildings and improvements	15-40
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

Deferred Revenue - In the fund financial statements, governmental funds report deferred revenue in connection with resources for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes - The Township's property taxes are levied as an enforceable lien on property as of December 1 and are due without penalty on or before February 14. These tax bills include the Township's own property taxes and a portion of the taxes billed on behalf of other governments and school districts within the Township's boundaries. Real property taxes not collected as of March 1 are turned over to St. Joseph County for collection. The County advances the Township 100% for delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Township's treasurer. The Township's property taxes levied on December 1 provide the revenue for the current fiscal year.

Taxes collected and remitted to other governments and school districts are accounted for in the Tax Collection Fund.

The assessed and state equalized taxable value of real and personal property located in the Township totaled \$50,923,535. The Township's general operating levy for the year was based on a millage rate of 0.00.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 2 - DEPOSITS AND INVESTMENTS

The Township's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and cash equivalents	\$ 389,432
Statement of Fiduciary Net Assets:	
Cash	<u>5,708</u>
Total	<u><u>\$ 395,140</u></u>

Cash - Statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation.

At March 31, 2008, the book balance was \$395,140 and the bank balance (without recognition of outstanding checks or deposits in transit) was \$498,367, of which \$370,000 was insured by federal depository insurance and \$128,367 was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution it deposits Township Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES

Receivables as of year end for the Township's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	<u>General</u>
State revenue sharing	\$ 25,818
Annexation agreements	13,736
Interest	6,426
Miscellaneous	<u>185</u>
Gross receivables	46,165
Less: allowance for uncollectibles	<u>-</u>
Net total receivables	<u><u>\$ 46,165</u></u>

TOWNSHIP OF STURGIS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2008, was as follows:

	Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$ -	-	\$ 25,000
Capital assets, being depreciated:				
Buildings and improvements	134,422	93,137	-	227,559
Office equipment	<u>-</u>	<u>5,075</u>	<u>-</u>	<u>5,075</u>
Subtotal	134,422	98,212	-	232,634
Accumulated depreciation				
Buildings and improvements	-	3,793	-	3,793
Office equipment	<u>-</u>	<u>362</u>	<u>-</u>	<u>362</u>
Subtotal	<u>-</u>	<u>4,155</u>	<u>-</u>	<u>4,155</u>
Net capital assets being depreciated	<u>134,422</u>			<u>228,479</u>
Net capital assets	<u>\$ 159,422</u>			<u>\$ 253,479</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental activities	
General government	<u>\$ 4,155</u>

TOWNSHIP OF STURGIS, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 5 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 6 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Township management and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township were adopted on a function level basis.

During the year ended March 31, 2008, the Township incurred the following expenditures in excess of the amounts appropriated at the legal level of budgetary control.

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
NONE				

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF STURGIS, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes and fees	\$ 16,000	\$ 16,000	\$ 15,170	\$ (830)
Licenses and permits	5,000	5,000	3,056	(1,944)
State shared revenues	150,200	150,200	166,656	16,456
Interest	5,000	5,000	36,812	31,812
Other	<u>3,163</u>	<u>3,163</u>	<u>6,351</u>	<u>3,188</u>
Total revenues	179,363	179,363	228,045	48,682
EXPENDITURES				
General government	168,275	168,275	116,646	51,629
Public safety	50,800	50,800	43,401	7,399
Public works	8,200	8,200	8,144	56
Capital outlay	<u>157,000</u>	<u>157,000</u>	<u>98,212</u>	<u>58,788</u>
Total expenditures	<u>384,275</u>	<u>384,275</u>	<u>266,403</u>	<u>117,872</u>
Excess (deficiency) of revenues over expenditures	(204,912)	(204,912)	(38,358)	166,554
FUND BALANCE - Beginning of year	<u>470,926</u>	<u>470,926</u>	<u>470,926</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 266,014</u>	<u>\$ 266,014</u>	<u>\$ 432,568</u>	<u>\$ 166,554</u>



REQUIRED COMMUNICATION TO THE TOWNSHIP OF STURGIS
IN ACCORDANCE WITH PROFESSIONAL STANDARDS

July 24, 2008

To the Township Board
Township of Sturgis, Michigan

Norman & Paulsen, P.C.

Chartered Accountants

11200 Highway B, East

Sturgis, MI 49093

Phone 851-1208

Fax 269-631-5146

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normanpaulsen@charter.net

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Sturgis for the year ended March 31, 2008, and have issued our report thereon dated July 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Sturgis are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Other Location

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Three Rivers, MI 49093

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Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael H. Wilson, CPA

Rick J. Stawert, CPA

1941-1991

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Township of Sturgis, Michigan for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

The relatively small number of people involved in the accounting functions of the Township makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board of Trustees must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.

Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot, by definition, be considered a part of the government's *internal* controls. This condition was caused by the Township's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Norman J. Paulson, P.C.